

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 COME-00 DODE-00 DOTE-00 EB-07

FMC-02 INR-07 NSAE-00 CG-00 OFA-01 DLOS-04 SP-02

AID-05 NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01

CEA-01 FRB-01 USIA-15 XMB-04 OPIC-06 LAB-04 SIL-01

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 2221

INFO AMCONSUL DHAHRAN

UNCLAS SECTION 1 OF 2 JIDDA 5883

E.O. 11652: N/A

TAGS: EWWT, SA

SUBJECT: SAUDI SHIPPING AND GROWING PAINS OF JIDDA PORT

SUMMARY: EMBOFF AND BUSINESS REPRESENTATIVES FROM LYKES BROS. STEAMSHIP CO. LEARNED FIRST-HAND OF THE GROWING PAINS OF JIDDA PORT AND THE VIEWS OF SEVERAL KEY SAUDI BUSINESSMEN ON THE WORSENING SITUATION. LACK OF PRIORITIES ON PART OF SAG APPARENT, AND SAUDI SHIPPERS APPREHENSIVE ON FUTURE DEVELOPMENT OF SAUDI FLEET UNTIL PORT PROBLEMS ADDRESSED AND GOVERNMENT PLANS OUTLINED. IMPLICATIONS FOR SAUDI DEVELOPMENT ARE CERTAINLY NOT GOOD. END WUMMARY.

1. RICHARD BERKEFELD, SENIOR VICE-PRESIDENT AND COL. WILLIAM B. TAYLOR (RET.), DIRECTOR OF INTERNATIONAL DEVELOPMENT, LYKES BROS. STEAMSHIP CO., VISITED JIDDA AUGUST 10-13 AND MET WITH REPRESENTATIVES OF SEVERAL LARGE SAUDI PRIVATE FIRMS AND OFFICIALS OF THE JIDDA PORT. PURPOSE OF VISITS WAS TO PRESENT DETAILS OF THE LYKES SEABEE, MULTI-PURPOSE BARGE CARRYING BULK BREAK CARGO CONTAINER ROLL ON/ROLL OFF

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CARGO VESSEL. THEY SOUGHT TO LEASE A

SEABEE (INCLUDING CREW) AS WELL AS THE CONSTRUCTION AND TURNKEY OPERATION OF ONE OR MORE ADDITIONAL SEABEES, AS REQUIRED. ALL INDIVIDUALS MET WITH EXPRESSED A MARKED INTEREST IN THE VESSEL, EXPECIALLY AFTER BERKEFELD MENTIONED THAT ARAMCO WAS INTERESTED IN A TWO-YEAR CHARTER ON ONE SEABEE. NO FIRM COMMITMENTS WERE MADE, HOWEVER.

2. MEETING WITH THE GENERAL MANAGER OF JIDDA PORT, MOHIDEEN DIWEESH AL-KAYAL, AND ZUHAIR RAMEZ KHAJA, DIRECTOR GENERAL OF PORT OPERATIONS: PORT MANAGER KAYAL, AFTER LISTENING TO A BRIEF DESCRIPTION OF THE ADVANTAGES OF THE SEABEE, STRESSED THAT THE JIDDA PORT WOULD BENEFIT FROM SUCH A VESSEL, BUT SECURITY AND CUSTOMS PROBLEMS PREVENTED ANY BENEFITS ACCURING FROM A SEABEE FOR SOME TIME. HE STATED THAT THE PORT HAS BEEN BUILT TO HANDLE 1.5 MILLION TONS OF CARGO ANNUALLY, WHILE IT IS CURRENTLY HANDLING AN ESTIMATED 3 MILLION TONS. PORT OFFICIALS ARE STUDYING THE POSSIBILITY OF RESERVING A BERTH EXCLUSIVELY FOR BARGES, THUS MAKING QUICK ENTRY AND EXIT FEASIBLE. KAYAL SAID HE WAS PLEASED WITH THE PERFORMANCE OF THE LASH VESSELS TO DATE. MR. ZUHAIR ADDED THAT ON AUGUST 25, CENTRAL GULF WOULD JOIN WATERMAN AS A LASH COMPANY SERVING THE JIDDA PORT. IN RESPONSE TO A QUESTION ON THE POSSIBLE DEVELOPMENT OF A SAUDI FLEET, KAYAL STATED THAT THE MAGNITUDE OF SUCH A PROJECT PRECLUDED PRIVATE SECTOR PARTICIPATION TO A LARGE DEGREE. HOWEVER, HE HAD NO INFORMATION OF GOVERNMENT PLANNING VIS-A-VIS A SAUDI FLEET.

3. IN DISCUSSIONS WITH BERKEFLED AND TAYLOR AFTER THE MEETING, WE AGREED THAT KAYAL'S DIFFICULTY WITH ENGLISH PREVENTED HIM FROM UNDERSTANDING MUCH OF WHAT WAS PUT FORWARD BY THEM. IT WAS ALSO CLEAR THAT DECISION MAKING ON PORT DEVELOPMENT DID NOT REST WITH HIM, AND HIS OWN APPROACH WAS NOT PROGRAM-ORIENTED. AN EXAMPLE OF HIS OUTLOOK WAS GIVEN IN RESPONSE TO A STATEMENT ABOUT HOW BAD CONGESTION IN THE PORT WAS. HE REPLIED THAT IF IT GETS MUCH WORSE, MAYBE MANY OF THE SHIPS WILL JUST GO AWAY, THUS EASING PRESSURE ON THE PORT FACILITIES.

4. THE FOLLOWING MORNING MR. ZUHAIR GAVE A TOUR OF THE UNCLASSIFIED

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JIDDA PORT. DRIVING PAST WAREHOUSES BULGING WITH UNPALATIZED CARGO, A LARGE PERCENTAGE OF WHICH WAS PACKED IN BOXES APPROXIMATELY THE SIZE OF A FILING CABINET DRAWER, OPEN FIELDS LITTERED WITH RIPPED OPEN BAGS OF CEMENT, DUSTY DATSUN PICK-UPS, AND MACHINERY AND GENERAL CARGO EXPOSED TO THE CORROSIVE SALT BREEZE, THERE WAS A SHOCKING RECOGNITION OF THE GROWING PAINS JIDDA PORT IS EXPERIENCING. WE COUNTED APPROXIMATELY 48 SHIPS WAITING

IN THE HARBOR. WHEN ASKED WHY THE PORT AUTHORITIES TOLERATE THE NON-PALATIZATION OF THE CARGO, ZUHAIR REPLIED THAT THE PORT HAD 12,000 PALATES ON HAND, BUT NO ONE HAD EXPRESSED ANY INTEREST IN PALATIZING CARGO. BERKEFELD, A VETERAN OF 47 YEARS IN THE SHIPPING BUSINESS, WAS VISIBLY UPSET, AND RESPONDED THAT IT WAS NOT IMPORTANT WHETHER OR NOT THE SHIPPERS WANTED TO PALATIZE, IT WAS UP TO THE PORT AUTHORITIES TO REQUIRE IT. ZUHAIR SAID THAT HE WOULD LOOK INTO THE POSSIBILITY OF MAKING THE COST OF UNLOADING UNPALATIZED CARGO SO HIGH THAT SHIPPERS WOULD OPT FOR PALATIZATION. (ONE INTERESTING SIDELIGHT WAS ZUHAIR'S OBSERVATION THAT THE JAPANESE WERE MUCH MORE AGGRESSIVE TRADERS THAN THE AMERICANS. HE POINTED TO AN AREA FILLED WITH DOMATSU TRACTORS SHIPPED TO JIDDA IN ANTICIPATION OF ORDERS, RATHER THAN IN RESPONSE TO THEM).

5. MEETING WITH MAHMOOD ALI REZA: MAHMOOD OPENED THE DISCUSSION BY EXPLAINING THAT HIS ONLY CONNECTION WITH SHIPPING WAS THROUGH HIS BROTHERS WHO WERE ALL OUT OF THE COUNTRY. SAMARCO (SAUDI ARABIAN MARITIME COMPANY), DESCRIBED BY MAHMOOD AS AN INDEPENDENT COMPANY HEADQUARTED IN LONDON, IS THE CORPORATION INVOLVED IN SHIPPING. BOARD MEMBERS INCLUDE SEVERAL OF THE ALI REZA'S. MAHMOOD WAS GENUINELY INTERESTED IN THE SEABEE A GAVE SEVERAL NAMES OF INDIVIDUALS IN SAMARCO WHO WOULD BE USEFUL CONTACTS PRIOR TO MEETING WITH HIS BROTHERS. EH EMPHASIZED, HOWEVER, THAT THE ALI REZAS WERE AGENTS, NOT SHIPPERS, AND ONLY TANGENTIALLY INTERESTED IN THE PURCHASE OR LEASING OF LARGE CARGO VESSELS AT THIS TIME.

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INFO OCT-01 ISO-00 CIAE-00 COME-00 DODE-00 DOTE-00 EB-07

FMC-02 INR-07 NSAE-00 CG-00 OFA-01 DLOS-04 SP-02

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6. MEETING WITH MATHEW WYSKIEL, ASSISTANT TO SHEIKH ABDUL AZIZ AL ABDULLAH SULEIMAN: WYSKIEL, FORMER MANAGER OF FNCB IN JIDDA, APOLOGIZED FOR HIS LACK OF KNOWLEDGE CONCERNING SHIPPING, BUT PATIENTLY LISTENED TO THE LYKES' SALES PITCH. HE PROMISED TO RAISE THE MATTER WITH THE SHEIKH WHO IS MORE THAN PASSIVELY INTERESTED IN EXPANDING SULEIMAN'S SHIPPING BUSINESS. CURRENTLY, SULEIMAN OWNS THREE SHIPS -- ONE TANKER AND TWO ROLL ON/ROLL OFFS -- AS PART OF A JOINT VENTURE WITH THE JAPANESE FIRM SANCO. WYSKIEL WAS PARTICULARLY INTERESTED WHEN BERKEFELD MENTIONED ARAMCO'S INTEREST IN A TWO-YEAR OF THE SEABEE. WYSKIEL COULD SEE THE POSSIBILITY OF SULEIMAN CHARTERING THE VESSEL TO SERVE ARAMCO'S NEEDS, IF ARAMCO SO DESIRED. BERKEFELD POINTED OUT THAT ARAMCO BY ITSELF WOULD PROBABLY REQUIRED THE SERVICES OF THE SHIP FOR TEN YEARS, THUS MAKING THE PROFIT PICTURE MUCH MORE LUCRATIVE WHILE REDUCING THE RISK OF BEING STUCK WITH AN IDLE SHIP. THERE IS ONE MAJOR HANGUP -- COST. PRICE OF A SEABEE IS \$75 MILLION; CHARTER PRICE OF A SEABEE IS \$45,000 PER DAY.

7. MEETING WITH GAITH PHAROAN, REDEC: PHAROAN WAS DE-UNCLASSIFIED

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CIDEDLY THE MOST OUTSPOKEN OF THOSE BERKEFELD AND TAYLOR MET. HE EXPLAINED THAT REDEC HAS TWO 14,000-TON GENERAL CARGO SHIPS USING FORTY-SIX 500-TON BARGES. THE SYSTEM IS PRIMITIVE, BUT THE INITIAL INVESTMENT WAS LOW. SHIP-PING COSTS WERE BEING HELD DOW, AS EVIDENCED BY A SHIPMENT OF BUSES AND MOBILE HOMES FROM THE U.S. WHICH HE SAID HIS COMPANY HAD RECENTLY CONTRACTED FOR AT \$53 TON. REDEC PLANS TO BUY TWO ROLL ON/ROLL OFF VESSELS NEXT YEAR. PHAROAN STRESSED THE POINT THAT PORT CONGESTION WILL NOT BE ALLEVIATED TO A SIGNIFICANT DEGREE BY HIGH PRO-DUCTIVITY VESSELS, BUT ONLY THROUGH IMPROVEMENT OF PORT FACILITIES AND THE STREAMLINING OF CUSTOMS PRO-CEDURES. IN DIRECT REFERENCE TO THE SEABEE, HE SAID THAT IF BARGE CARRYING VESSELS ARE SUBSTITUTED FOR CONVENTIONAL SHIPS, JIDDA PORT WILL THEN SUFFER FROM A GLUT OF BARGES AND BE NO BETTER OFF. THE PRINCIPAL ADVANTAGE HE SAW IN THE SEABEE WAS THAT LARGE EQUIP-MENT COULD BE SHIPPED ALREADY ASSEMBLED. HE POINTED OUT THAT IN MANY CASES, 70 PERCENT OF THE COST OF LARGE PIECES OF

EQUIPMENT IN SAUDI ARABIA WAS FOR WELDING ALONE. WELDERS ARE MAKING AS MUCH AS \$200 RPT \$200 AN HOUR NOW.

8. HE STATED THAT REDEC IS VERY INTERESTED IN EXPANDING ITS OPERATIONS, BUT WITHOUT A HIGH INITIAL INVESTMENT. HOWEVER, IF ARAMCO WOULD GUARANTEE CARGO FOR SEVERAL YEARS, REDEC WOULD BE INTERESTED IN LEASING OR PURCHASING ONE OR EVEN TWO SEABEES. IN ADDITION TO THE REDUCTION IN COST IN USING A SEABEE, PHAROAN POINTED OUT THAT BEING UNDER THE SAUDI FLAG GAVE HIM THE ADVANTAGE OF LOWER BUNKERING COSTS (\$26 PER TON FOR SAUDIS) \$75 PER TON FOR FOREIGNERS, HE CLAIMED. PETROMIN FIGURES FOR JIDDA PORT SHOW THAT SAUDI VESSELS PAY APPROXIMATELY \$39 PER TON FOR DIESEL AND \$18 PER TON FOR FUEL OIL. FOREIGN VESSELS PAY \$82 PER TON FOR DIESEL AND \$58 PER TON FOR FUEL OIL).

9. COMMENTS: FROM THE ABOVE MEETINGS, ALBEIT FEW IN NUMBER, THE CONSERVATIVE SAUDI BUSINESSMEN MARK THE EMBRYONIC SHIPPING INDUSTRY BEGIN TO COME INTO FOCUS. WITHOUT ADEQUATE PORT FACILITIES AND INDICATIONS OF GOVERNMENT INTENTIONS, THE SAUDI PRIVATE SECTOR IS UNDER-UNCLASSIFIED

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STANDING APPREHENSIVE ABOUT COMMITTING LARGE SUMS OF CAPITAL FOR ANY KIND OF MODERN FLEET. WAITING FOR THE

SAUDI GOVERNMENT TO TAKE THE INITIATIVE ON DEVELOPING A FLEET IS A PAINFUL PROCESS TO SAUDI BUSINESSMEN WHO REALIZE TIME IS MONEY, AND EVEN MORE PAINFUL TO THE AMERICAN SALESMEN HOPING TO SHARE IN THE PROFITS. NEVERTHELESS, THEIR FUSTEATION IS MINOR COMPARED TO WHAT WILL HAPPEN IF

PRIORITIES ARE NOT CLEARLY DEFINED SOON. PORT DEVELOPMENT AND THE STREAMLINING OF CUSTOMS AND SECURITY PROCEDURES ARE PREREQUISITES FOR ANY PLAN. THEN, AND ONLY THEN, CAN THE SAG OR THE PRIVATE SECTOR MEANINGFULLY AND CONFIDENTLY TACKLE THE QUESTION OF THE DEVELOPMENT OF A SAUDI FLEET.

10. AS FAR AS BERKEFELD AND TAYLOR ARE CONCERNED,

THEY WERE GREATLY ENCOURAGED BY THIS INITIAL CONTACT CONCERNING THE SEABEE. THE BALL IS IN THE SAUDI COURT NOW, ALTHOUGH MUCH DEPENDS ON ARAMCO'S RESPONSE. THEY DO, HOWEVER, EXPECT TO RETURN TO SAUDI ARABIA IN MID-OCTOBER FOR FURTHER SOUNDINGS.

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